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CENTRAL INTELLIGENCE AGENCY

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INTELLIGENCE MEMORANDUM NO. 282

28 March 1950

SUBJECT: Trade Between East and West Germany

Commercial and industrial trade between West and East Germany continues to increase outside the interzonal trade agreement despite efforts by the occupation authorities to enforce the export control program. Federal authorities in West Germany display little desire to cooperate in halting this extra-legal trade, which is already larger than that legally authorized, and border controls are inadequate. Meanwhile, West German industrialists apparently believe not only that extensive trade relations can be developed with the Soviet orbit, including China, but that West Germany cannot exist without this trade. (Actually, West Germany's prewar trade with the East only amounted to approximately 15 percent of its total foreign trade.) This West German belief is presently being fed by such factors as: (1) resentment over stricter application of 1A and 1B controls to West Germany than to other ECA nations; (2) the non-competitive nature of the Eastern markets compared with those in the West; (3) the greater availability of certain foods and raw materials in the East; and (4) the hope that East and West Germany will someday be reunited.

If East-West German trade continues to escape strict official scrutiny and control, the US will lose the ability to cut off shipments to the German Democratic Republic, at present an important US bargaining weapon in negotiations with the USSR on the security of Berlin and access to the city. Other effects of this illegal trade will be to: (1) contribute to the fulfillment of the East German Two-Year Plan and to the war potential of the Soviet orbit generally; (2) accelerate the attainment by East Germany of economic independence of the West by Western exports of much-needed capital goods; (3) improve gradually the living standards of the East Germans, who will then be less inclined to resist the Communist regime; (4) divert capital goods that could be used in the West; and (5) provide propaganda material for German unification to the National Front in East Germany and to ultra-nationalists in West Germany, many of whom favor establishing a modus vivendi with the USSR.

Note: This memorandum has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force.

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NO CHANGE in Class.

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